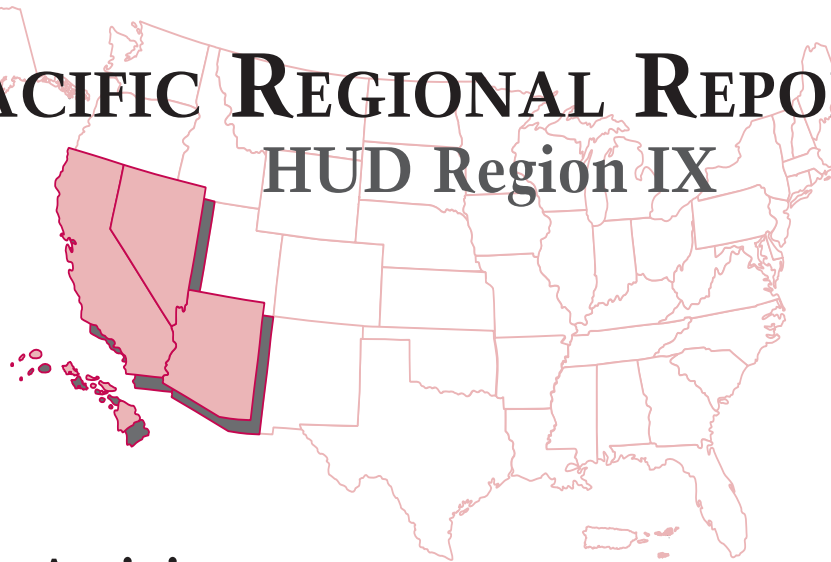




U.S. Housing Market Conditions

PACIFIC REGIONAL REPORT HUD Region IX



3rd Quarter Activity

The following summary of the Pacific region's housing market conditions and activities has been prepared by economists in the U.S. Department of Housing and Urban Development's (HUD's) field offices. The report provides overviews of economic and housing market trends within the Pacific region. The report is based on information obtained by HUD economists from state and local governments, from housing industry sources, and from their ongoing investigations of housing market conditions carried out in support of HUD's programs.

Labor market conditions in the Pacific region continue to improve after significant job losses from 2008 through 2010. During the 12 months ending September 2012, the region added 270,650 nonfarm payroll jobs, an increase of 1.5 percent from the previous 12 months. The professional and business services, education and health services, and leisure and hospitality sectors led job growth, adding 91,550, 62,600, and 58,100 jobs, or 3.4, 2.7, and 2.6 percent, respectively. The government sector registered the greatest nonfarm payroll decline, losing 39,900 jobs, or 1.3 percent, because of budget cuts in the federal and local government subsectors.

Nonfarm payroll growth was positive in all four states in the Pacific region during the 12 months ending September 2012. California added 209,700 jobs, an increase of 1.5 percent compared with a gain of 118,100 jobs, or 0.8 percent, during the previous 12 months. The same sectors that led growth in the region drove job growth in California, where the professional and business services sector increased by 80,400 jobs, or 3.8 percent; the education and health services sector increased by 50,300 jobs, or 2.8 percent; and the leisure and hospitality sector increased by 37,200 jobs, or 2.4 percent. The government sector declined by 37,250 jobs, or 1.5 percent. During the same period, Southern California and the San Francisco Bay Area added 99,150 and 66,700 jobs, increases of 1.2 and 2.4 percent, respectively. During the 12 months ending September 2012, Hawaii nonfarm payrolls gained 6,825 jobs, or 1.2 percent, compared with a gain of 5,675 jobs, or 1.0 percent, during the previous 12 months. The leisure and hospitality and the professional and business services sectors led nonfarm payroll growth in Hawaii, adding 4,900 and 1,175 jobs, increases of 4.8 and 1.6 percent, respectively. According to the Hawaii Tourism Authority, gross expenditures from tourism totaled \$13.8 billion during the 12 months ending September 2012, an increase



of 17 percent compared with the expenditures recorded during the previous 12 months. Nonfarm payrolls in Arizona rose by 44,000 jobs, or 1.8 percent, during the 12 months ending September 2012 compared with an increase of 15,950 jobs, or 0.7 percent, during the previous 12 months. The education and health services and the professional and business services sectors in Arizona added 9,850 and 7,600 jobs, increases of 2.8 and 2.2 percent, respectively. The Arizona Office of Tourism estimated that gross sales from tourism totaled \$62.1 billion during the 12 months ending August 2012, a 5-percent increase compared with the gross sales recorded during the previous 12-month period. Nevada added 10,100 jobs, an increase of 0.9 percent, compared with an increase of 1,250 jobs, or 0.1 percent, during the previous 12 months. Job gains in Nevada were most significant in the leisure and hospitality sector, which added 8,725 jobs, a 2.8-percent increase. The average unemployment rate in the region decreased to 10.5 percent, down from 11.7 percent during the previous year. The average state unemployment rates ranged from 6.3 percent in Hawaii to 12.2 percent in Nevada.

Although it is improving, the sales housing market remained soft in three of the four Pacific region states during the 12 months ending September 2012 as a result of tight lending requirements and high unemployment. According to Hanley Wood, LLC, new and existing home sales in the region fell 3 percent, to 673,300 homes. In Arizona, sales declined 3 percent, to 140,500, from the 12 months ending September 2011. The average sales price increased 10 percent, to \$183,300. As a percentage of existing home sales, Arizona Real Estate Owned (REO) sales decreased to 35 percent during the 12 months ending September 2012 compared with 55 percent during the previous 12 months. In Phoenix, home sales declined 3 percent, to 106,400, and the average home sales price increased 12 percent, to \$189,000.

Sales of new and existing homes totaled 452,200 in California during the 12 months ending September 2012, a 6-percent increase compared with the number of homes sold during the previous 12 months. The average home sales price increased 3 percent, to \$373,300. As a percentage of existing home sales, REO sales declined to 33 percent from 42 percent a year ago. In the San Francisco Bay Area, 73,900 homes sold, a 10-percent increase compared with the number sold during the previous 12 months. During the same period, the average home sales price increased 4 percent, to \$581,600. The number of homes sold in Southern California increased 6 percent, to 239,800, and the average home sales price rose 3 percent, to \$396,500.

In Hawaii, new and existing home sales fell 6 percent during the 12 months ending September 2012, to 15,650 homes sold. The average home sales price increased 5 percent, to \$493,800. As a percentage of all existing sales, REO sales declined to 11 percent from 17 percent during the previous 12 months. In Honolulu, the number

of homes sold declined 6 percent, to 9,300 homes, and the average home sales price rose 4 percent, to \$524,000. New and existing home sales in Nevada remained unchanged at 65,000 homes during the 12 months ending September 2012. The average home sales price in Nevada rose 2 percent, to \$159,700. As a percentage of all existing home sales, REO sales decreased from 61 percent in September 2011 to 46 percent in September 2012. During the 12 months ending September 2012, home sales declined 2 percent, to 50,750 homes, in Las Vegas, but the average home sales price increased 4 percent, to \$153,700.

According to LPS Applied Analytics, as of September 2012, 6.3 percent of home loans in the region were 90 or more days delinquent, were in foreclosure, or transitioned into REO, down from 8.3 percent in September 2011. The September 2012 level was down to 390,900 homes, a decrease of 149,700 homes, or 28 percent, compared with September 2011.

Because of stabilizing sales market conditions in Arizona and California, new home construction activity, as measured by the number of single-family homes permitted, increased in the Pacific region during the 12 months ending September 2012. Based on preliminary data, 47,600 single-family homes were permitted in the region, a 28-percent increase compared with the number permitted during the previous 12 months. The greatest increases in new home construction were in Arizona and California; the number of single-family homes permitted increased by 4,975, or 52 percent, to 14,600 homes in Arizona and by 3,025, or 14 percent, to 24,300 homes in California. The number of single-family homes permitted increased by 2,125, or 47 percent, to 6,675 homes in Nevada and by 250, or 15 percent, to 1,925 homes in Hawaii.

Rental housing markets in California and Hawaii varied from tight to balanced in the third quarter of 2012. Although apartment vacancies increased in the San Francisco Bay Area, the rental market remained tight; from the third quarter of 2011 to the third quarter of 2012, the apartment vacancy rates in San Jose and San Francisco increased from 3.2 and 2.8 percent to 3.5 and 4.3 percent, respectively, according to AXIOMetrics Inc. The apartment vacancy rates increased as newly completed units entered the market. The rental vacancy rate in Oakland remained at 3.5 percent. During the same period, average effective rents increased 10 percent, to \$2,450, in San Francisco; 10 percent, to \$2,150, in San Jose; and 7 percent, to \$1,700, in Oakland. The rental housing market in Sacramento was balanced in the third quarter of 2012, with an apartment vacancy rate of 5.5 percent, up from 5.4 percent in the third quarter of 2011. During the same period, rents increased 3 percent, to \$1,025. AXIOMetrics Inc. reported that apartment vacancy rates were down from the third quarter of 2011 to the third quarter of 2012 in two of the five markets in Southern California. The apartment vacancy rate declined from 4.8 to 4.6 percent in Los Angeles County and from 4.6 to 4.4 percent



in Ventura County. The apartment vacancy rate increased from 4.1 to 4.2 percent in San Diego County. During the same period, the apartment vacancy rate remained at 5.7 percent in Riverside and San Bernardino Counties and at 4.6 percent in Orange County. In the third quarter of 2012, the average rent in Southern California was \$1,575, up 3 percent compared with the rents recorded during the third quarter of 2011. During the same period, the apartment vacancy rate in Honolulu increased to 5.8 percent, up from 3.6 percent in the third quarter of 2011. The rise resulted from increased vacancies in units built before 1980. The average rent in Honolulu rose 1 percent, to \$1,828, up from \$1,823 in the third quarter of 2011.

The rental housing markets in major metropolitan areas in Arizona were slightly soft but improving in the third quarter of 2012. According to AXIOMetrics Inc., the apartment rental vacancy rate in Phoenix was 7.4 percent, down from 7.5 percent in the third quarter of 2011, and the average rent increased 3 percent, to \$770. The decline in vacancy rates was partially caused by increasing population growth. During the third quarter of 2012, the rental housing

markets in Nevada remained soft because of slow job growth. In Las Vegas, the apartment vacancy rate increased to 8.2 percent, up from 7.8 percent in the third quarter of 2011. The average rent remained unchanged at \$750.

Multifamily construction activity, as measured by the number of multifamily units permitted, increased in three of the four Pacific region states during the 12-month period ending September 2012. Based on preliminary data, 36,150 multifamily units were permitted in the region, a 37-percent increase from the previous 12 months. Increased renter demand and declining vacancy rates were the main impetus for rising multifamily permits in Arizona and California. During the 12-month period ending September 2012, the number of multifamily units permitted increased by 1,250, or 56 percent, to 3,525 units in Arizona; by 8,400, or 39 percent, to 30,100 units in California; and by 180, or 19 percent, to 1,125 units in Hawaii. The number of multifamily units permitted in Nevada fell 9 percent, to 1,425, down from 1,575 units during the previous 12 months.